

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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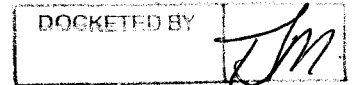
TO: THE COMMISSION

FROM: Utilities Division

2012 JUN 4 AM 9 14

JUN 04 2012

DATE: June 4, 2012



RE: PARKER LAKEVIEW ESTATES HOMEOWNERS ASSOCIATION INC. DBA
PARKER SPRINGS WATER COMPANY'S APPLICATIONS FOR A RATE
INCREASE AND FINANCING (DOCKET NOS. W-01853A-11-0065 AND W-
01853A-11-0050)
(REQUEST TO IMPLEMENT LOAN SURCHARGE)

Introduction

Parker Lakeview Estates Homeowners Association, Inc. dba Parker Springs Water Company ("Parker Springs" or "Company") is a non-profit Arizona corporation engaged in the business of providing water utility service to approximately 41 (13 full-time and 28 seasonal) customers southwest of Sierra Vista in Cochise County, Arizona.

Background

The Company's current rates were approved in Decision No. 72638, issued October 14, 2011, in the above-named dockets.

Decision No. 72638 also authorized the Company to borrow up to \$271,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") to fund capital improvement projects that were identified in engineering studies obtained by the Company to address its excessive water loss.

The Decision further authorized the Company, after it has secured the WIFA loan, to file for implementation of a WIFA loan surcharge ("surcharge"). Consequently, on April 24, 2012, Parker Springs filed the instant request to implement the surcharge.

Surcharge

In its Staff Report, Staff set forth a methodology for determining the surcharge amount once the Company knew the final loan amount and terms. Staff's methodology involved first calculating the amount of funds required, in addition to funds from permanent rates, to provide a 1.25 debt service coverage ratio and sufficient cash flow to meet all obligations including the WIFA loan and a nominal amount for contingencies. Staff then determined the monthly surcharge amount for each meter that would be needed to provide the additional funds.

Staff has replicated that methodology to reflect the most recent data.¹ The additional funds required are \$12,714 per year and the resulting surcharge is \$25.84 per month for the 5/8 x 3/4-inch meter customers. The loan surcharge will increase the typical bill for a 5/8 x 3/4-inch meter customer with a median usage of 430 gallons by \$25.84, or 71.5 percent, from \$36.16 to \$62.00. The results of Staff's analysis are shown in the attached Schedules GLF-1, GLF-2 and GLF-3 (WIFA Loan Financial Analysis, Schedule of Surcharges by Meter Size and Typical Bill Analysis).

Conclusions and Recommendations

Staff concludes that implementation of the surcharge amounts as shown in Schedule GLF-2 is consistent with Decision No. 72638.

Staff recommends approval of the surcharge amounts as shown in Schedule GLF-2.

Staff further recommends that the Company file a tariff explaining the terms and conditions of the surcharge within 15 days of the effective date of the Decision in this proceeding.

Staff further recommends that the Company notify its customers of the surcharge tariff, in a form acceptable to Staff, within 15 days of the effective date of the Decision in this proceeding.



Steven M. Olea
Director
Utilities Division

SMO:GLF:lhms\SH

ORIGINATOR: Gordon L. Fox

¹ The final loan documents indicate approval of \$271,000 amortized over 19.5 years at an interest rate of 1.0%.

WIFA LOAN FINANCIAL ANALYSIS

Pro Forma Income Statement and Capital Structure Including Immediate Effects of the Proposed Debt and Surcharge

INCOME STATEMENT

	<i>Pro Forma Permanent Rates</i>	<i>Pro Forma With Surcharge</i>
Operating Revenue:	\$18,302	\$18,302
Operating Expenses:		
Purchased Water/Pumping Power	\$3,119	\$3,119
Admin. & General	6,641	6,641
Maintenance & Testing	1,709	1,709
Depreciation (d)	2,473	2,473
Property Taxes	340	340
Other taxes	50	50
Total Operating Expense	<u>\$14,332</u>	<u>\$14,332</u>
Pre-Tax Operating Income	\$3,970	\$3,970
Loan Surcharge	\$0	\$12,764
Interest Expense (b)	<u>2,652</u>	<u>2,652</u>
Pre-Tax Net Income (a)	<u><u>\$1,318</u></u>	<u><u>\$14,082</u></u>
Principal Repayment (c)	12,714	12,714
Reserve/Replacement Deposit (e)	3,060	3,060
TIER (Times Interest Earned Ratio)		
(a) + (b)	1.50	6.29
DSC (Debt Service Coverage)		
[(a) + (d)] ÷ [(b) + (c)]	0.42	1.25

CAPITAL STRUCTURE

Short-term Debt	\$12,714	4.1%	\$12,714	4.1%
Long-term Debt	\$258,286	84.2%	\$258,286	84.2%
Common Equity	\$35,599	11.6%	\$35,599	11.6%
Total Capital	\$306,599	100.0%	\$306,599	100.0%

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter
(Includes Loan Surcharge)

Average Number of Customers: 41

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	851	\$ 37.30	N/A	N/A	N/A
Median Usage	430	\$ 36.16	N/A	N/A	N/A

<u>Staff Recommend</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	851	\$ 37.30	\$ 63.14 ¹	\$25.84	69.3%
Median Usage	430	\$ 36.16	\$ 62.00 ¹	\$25.84	71.5%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$ 35.00	N/A	N/A	\$ 60.84	73.8%
1,000	37.70	N/A	N/A	63.54	68.5%
2,000	40.40	N/A	N/A	66.24	64.0%
3,000	43.10	N/A	N/A	68.94	60.0%
4,000	47.60	N/A	N/A	73.44	54.3%
5,000	52.10	N/A	N/A	77.94	49.6%
6,000	56.60	N/A	N/A	82.44	45.7%
7,000	61.10	N/A	N/A	86.94	42.3%
8,000	65.60	N/A	N/A	91.44	39.4%
9,000	71.00	N/A	N/A	96.84	36.4%
10,000	76.40	N/A	N/A	102.24	33.8%
15,000	103.40	N/A	N/A	129.24	25.0%
20,000	130.40	N/A	N/A	156.24	19.8%
25,000	157.40	N/A	N/A	183.24	16.4%
50,000	292.40	N/A	N/A	318.24	8.8%
75,000	427.40	N/A	N/A	453.24	6.0%
100,000	562.40	N/A	N/A	588.24	4.6%
125,000	697.40	N/A	N/A	723.24	3.7%
150,000	832.40	N/A	N/A	858.24	3.1%
175,000	967.40	N/A	N/A	993.24	2.7%
200,000	1,102.40	N/A	N/A	1,128.24	2.3%

¹ Includes a \$25.84 loan surcharge.

SCHEDULE OF SURCHARGES BY METER SIZE

Total Annual Surcharge Revenue Requirement for the Loan				\$ 12,714
Total Equivalent Annual Bills				492
5/8"x 3/4" Meter Surcharge Amount	\$ 12,714	÷	492 =	\$ 25.84
3/4" Meter Surcharge Amount	\$ 25.84	x	1.5 =	\$ 38.76
1" Meter Surcharge Amount	\$ 25.84	x	2.5 =	\$ 64.60
1 1/2" Meter Surcharge Amount	\$ 25.84	x	5.0 =	\$ 129.21
2" Meter Surcharge Amount	\$ 25.84	x	6.0 =	\$ 206.73
3" Meter Surcharge Amount	\$ 25.84	x	16.0 =	\$ 413.46
4" Meter Surcharge Amount	\$ 25.84	x	25.0 =	\$ 646.04
6" Meter Surcharge Amount	\$ 25.84	x	50.0 =	\$ 1,292.07

Meter Size	Number of Customers	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	41	1	41	492	\$ 25.84	\$ 310.10	\$ 12,714
3/4" Meter	0	1.5	0	0	38.76	-	-
1" Meter	0	2.5	0	0	64.60	-	-
1 1/2" Meter	0	5	0	0	129.21	-	-
2" Meter	0	8	0	0	206.73	-	-
3" Meter	0	16	0	0	413.46	-	-
4" Meter	0	25	0	0	646.04	-	-
6" Meter	0	50	0	0	1,292.07	-	-
TOTAL	<u>41</u>		<u>41</u>	<u>492</u>			<u>\$ 12,714</u>

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 GARY PIERCE
Chairman

3 BOB STUMP
Commissioner

4 SANDRA D. KENNEDY
Commissioner

5 PAUL NEWMAN
Commissioner

6 BRENDA BURNS
Commissioner

7
8 IN THE MATTER OF THE APPLICATION }
OF PARKER LAKEVIEW ESTATES }
9 HOMEOWNERS ASSOCIATION, INC. DBA }
10 PARKER SPRINGS WATER COMPANY }
FOR APPROVAL OF A RATE INCREASE }

DOCKET NO. W-01853A-11-0065

11 IN THE MATTER OF THE APPLICATION }
12 OF PARKER LAKEVIEW ESTATES }
HOMEOWNERS ASSOCIATION, INC. DBA }
13 PARKER SPRINGS WATER COMPANY }
14 FOR APPROVAL OF FINANCING }

DOCKET NO. W-01853A-11-0050

15 DECISION NO. _____

16 (REQUEST TO IMPLEMENT
LOAN SURCHARGE)

ORDER

17 Open Meeting
18 June 19 and 20, 2012
Phoenix, Arizona

19 BY THE COMMISSION:

20 Parker Lakeview Estates Homeowners Association, Inc., dba Parker Springs Water
21 Company ("Parker Springs" or "Company") is a non-profit Arizona corporation engaged in the
22 business of providing water utility service to approximately 41 (13 full-time and 28 seasonal)
23 customers southwest of Sierra Vista in Cochise County, Arizona.

24 * * * * *

25 Having considered the entire record herein and being fully advised in the premises, the
26 Commission finds, concludes, and orders that:

27 ...

28 ...

FINDINGS OF FACT

1. The Company's current rates were approved in Decision No. 72638, issued October 14, 2011, in the above-named dockets.

2. Decision No. 72638 also authorized the Company to borrow up to \$271,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") to fund capital improvement projects that were identified in engineering studies obtained by the Company to address its excessive water loss.

3. The Decision further authorized the Company, after it has secured the WIFA loan, to file for implementation of a WIFA loan surcharge ("surcharge").

4. On April 24, 2012, Parker Springs filed the instant request to implement the surcharge.

5. In its Staff Report, Staff set forth a methodology for determining the surcharge amount once the Company knew the final loan amount and terms. Staff's methodology involved first calculating the amount of funds required, in addition to funds from permanent rates, to provide a 1.25 debt service coverage ratio and sufficient cash flow to meet all obligations including the WIFA loan and a nominal amount for contingencies. Staff then determined the monthly surcharge amount for each meter that would be needed to provide the additional funds.

6. Staff has replicated that methodology to reflect the most recent data. The resulting surcharge would be \$25.84 per month for the 5/8 x 3/4-inch meter customers, as indicated in the attached Schedule GLF-2.

7. Staff concludes that implementation of the surcharge amounts as shown in Schedule GLF-2 is consistent with Decision No. 72638.

8. Staff recommends approval of the surcharge amounts as shown in Schedule GLF-2.

9. Staff further recommends that the Company file a tariff explaining the terms and conditions of the surcharge within 15 days of the effective date of the Decision in this proceeding.

10. Staff further recommends that the Company notify its customers of the surcharge tariff within 15 days of the effective date of the Decision in this proceeding.

11. Staff's conclusions and recommendations are reasonable and should be adopted.

Decision No. _____

CONCLUSIONS OF LAW

1. The Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

3. Approval of the Company's WIFA loan surcharges is consistent with the Commission's authority under the Arizona Constitution and applicable case law.

4. It is in the public interest to authorize the Company's request for approval of the WIFA loan surcharges as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Parker Lakeview Estates Homeowners Association, Inc. dba Parker Springs Water Company for the implementation of a WIFA loan surcharge is hereby approved, as discussed herein.

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IT IS FURTHER ORDERED that Parker Lakeview Estates Homeowners Association, Inc. dba Parker Springs Water Company shall file with the Commission's Docket Control, as a compliance item in this docket, a tariff explaining the terms and conditions of the WIFA loan surcharge, within 15 days of the date of this Decision

IT IS FURTHER ORDERED that Parker Lakeview Estates Homeowners Association, Inc. dba Parker Springs Water Company shall notify its customers of the WIFA Loan Surcharge tariff, in a form acceptable to Staff, within 15 days of the effective date of the Decision resulting from this proceeding.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:GLF:lh\SH

Decision No. _____

1 SERVICE LIST FOR: Parker Lakeview Estates Homeowners Association, Inc.
2 DOCKET NOS. W-01853A-11-0065 and W-01853A-11-0050

3 Parker Lakeview Estates Homeowners Association, Inc.
4 dba Parker Springs Water Company
5 c/o Gail Spain, Secretary/Treasurer
6 HC1 Box 474
7 Elgin, Arizona 85611

8 Mr. Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007
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4" Meter	0	25	0	0	646.04	-	-
6" Meter	0	50	0	0	1,292.07	-	-
TOTAL	<u>41</u>		<u>41</u>	<u>492</u>			<u>\$ 12,714</u>